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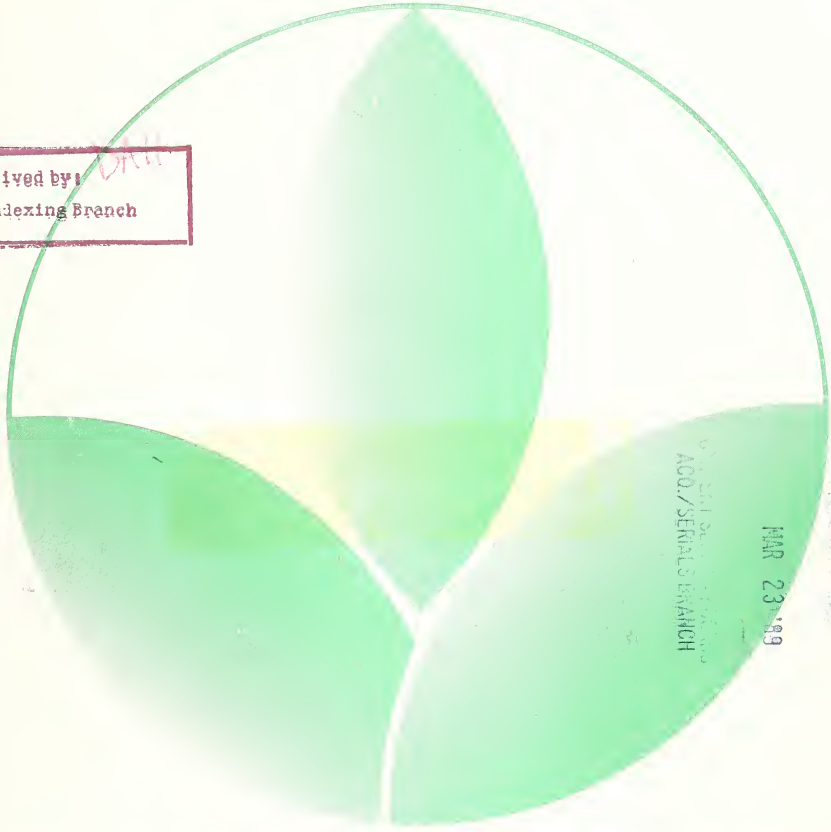
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Washington, D.C.



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OUTLOOK FOR POULTRY AND EGGS

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Broiler and turkey production are forecast to continue rising in 1989, following positive net returns during 1988 and expectations of positive net returns in 1989. Egg production is expected to continue declining in 1989 as producers continue to adjust to weakening demand and negative net returns which have occurred for much of the past two years. Broiler prices are expected to decline slightly while turkey and table egg prices are expected to rise. U.S. poultry and egg exports in 1989 are expected to fall below 1988 levels.

Factors Affecting Demand and Supply

General economy

The general economy is expected to continue growing in 1989, albeit more slowly than in 1988. The current expansion will enter its seventh year in 1989. Growth in incomes will provide some support for meat purchases in 1989. With larger incomes, consumers will be able to purchase more food from restaurants and fast food establishments, major growth areas for value-added poultry products in recent years.

However, continued concern over persistent deficit spending and the length of the current economic expansion may begin to cloud investment expectations. Interest rates are expected to rise slightly in 1989. Increased capital costs will likely dampen investment in poultry processing plants and growout facilities. Changes in the tax codes involving special purpose buildings could also reduce incentives for expanding investment.

Production costs higher

Production costs for all poultry and egg producers are expected to be considerably higher in first-half 1989 as a direct result of the 1988 drought. Corn prices are expected to average considerably higher, until the 1989 crop becomes more certain. The 1988 U.S. corn crop is estimated to be 4.67 billion bushels, about 34 percent smaller than the 1987 crop. Combined with a projected 34 percent lower U.S. ending stock of 1.45 billion bushels in 1988/89 and lower world production, corn prices are expected to average

\$2.40-\$2.80 per bushel, about 34 percent above year earlier. This price rise follows a 30 percent increase in 1987/88 from 1986/87.

Soybean meal prices are expected to rise about 15 percent from a year earlier in 1988/89, averaging \$235-275 per ton. This increase follows a 36 percent rise in 1987/88. The smaller increase in soybean meal prices compared with the increase in corn prices results in part because the 1988/89 U.S. soybean crop was not as affected by the drought as corn was. Soybean production is estimated to fall only 21 percent from the previous crop. Secondly, spring harvests in the southern hemisphere may be able to partially offset U.S. production decreases.

Corn and soybean meal prices are expected to decline in second-half 1989 under normal weather conditions. The U.S. is yet to have back-to-back droughts in the major feed growing regions. However, that does not mean a back-to-back drought could not occur.

Supplies of competing meats

Decreases in domestic supplies of high value beef as well as ground meat, direct competitors with chicken, could provide support for broiler prices in 1989. Following 1988's record per capita disappearance of about 220 pounds (retail basis) of red meat and poultry, disappearance is expected to fall around 3 pounds per person in 1989. Red meat disappearance is forecast to decline nearly 4 percent per person with the drop coming from beef. Fed cattle as well as nonfed cattle slaughter are expected to decline. Reduced feeder cattle supplies and the retention of some heifers for herd rebuilding will contribute to less cattle feeding in 1989. Per capita pork disappearance in 1989 is expected to be about the same as in 1988. Year-over-year increases are likely in the first half of the year but declines are expected late in the year.

Broilers

Production to increase

Broiler production is forecast to rise another 3-5 percent in 1989 following positive net returns since second-quarter 1988. Broiler production in 1988 will likely rise 4 percent from 1987 to more than 16 billion pounds. Expectations of sharply higher feed costs in early 1989 from a year earlier will probably blunt the industry's tendency to escalate the size of production increases following periods of good net returns. Following the summer of 1986 when monthly net returns reached as high as 24 cents per pound, producers expanded production 9 percent in 1987. However, current feed costs are almost 30 percent higher than they were in 1986 and expectations are for feed costs to remain high in first-half 1989. In 1986, forecasts called for 1987 feed costs to decrease.

While broiler production is forecast to increase 4 percent, most evidence suggests that the largest portion of the annual increase will come during the second half of 1989. Broiler eggs in incubators during November 1988 and chick placements for slaughter in early 1989 indicate production will increase 2-3 percent at the beginning of the year. The size of the hatching egg flock,

which is comprised largely of broiler egg-laying type hens, indicates similar increases. The broiler hatchery supply flock, an estimate of broiler egg laying type hens in the future, shows a similar trend. A broiler hen is in prime production between 7 and 14 months of age. Pullets placed in October will reach laying age by May 1989. By summing the number of pullets placed in the broiler hatchery supply flock that will be 7-14 months of age in May 1989, a rough estimate of the hatching egg flock can be obtained. This estimate is at best a directional indicator of production because broiler integrators can molt hens if they need a near term increase, or they can dispose of the eggs if a short-term decrease is warranted. Recent placements to hatchery supply flock indicated that broiler producers intend to expand the flock during 1989.

While broiler production continues to increase, broiler liveweights have increased only fractionally from a year earlier during the first ten months of 1988. The slight increase might indicate a temporary end to the increasing bird sizes. Complaints by retailers of too much fat deposition and birds being heavier than desired perhaps has slowed liveweight increases.

Prices to decline in 1989

The annual wholesale broiler price in 1989 is not likely to average above 1988. Broiler prices rose sharply during the spring and summer of 1988, after being somewhat weak early in the year. Prices during fourth-quarter 1988 remain at relatively high levels compared with a year earlier. If the pattern continues, first-quarter 1989 wholesale broiler prices will probably average 50-56 cents per pound, above the 45 cents during same period last year.

Second- and third-quarter broiler prices in 1989 are expected to average 53-59 cents per pound compared with 56 and 66 cents during 1988. Summer 1989 prices probably will not rise to the levels of 1988, unless an extraordinary string of events occur such as those that transpired this past summer which resulted in higher prices and tighter supplies. Retailers and restaurateurs featured chicken through most of the summer in 1988. Also, broiler producers placed only 2-3 percent more broilers for summer slaughter following a period of negative returns during late 1987 and early 1988 and hot weather slowed the rates of gain. Similar events occurred in 1986. Continued high beef prices during summer 1989 should support summer prices. Prices are expected to decline in the fourth quarter to 47-53 cents as seasonal barbecuing and summer vacations end.

Average retail frying chicken prices will probably decline in 1989 from 1988. The tight supplies which occurred along with the heavy chicken featuring during summer 1988 are unlikely to occur in 1989 as producers are expected to be increasing the expansion rate by summer 1989.

Bright spots for further investment

Further investment opportunities in broiler industry deboning capacity appear to be available. The ratio of boneless, skinless chicken breast price when compared with whole fryer prices has been rising since 1978 while ratios comparing cutup chicken parts prices in the Northeast with the 12-city wholesale composite price have not changed over time. Capacity constraints

evidently continue to require some bidding for boneless breast meat to ration the quantities demanded.

World production

World production of broilers is expected to increase around 4 percent in 1989 following nearly a 3-percent rise in 1988. The United States, European Community (EC), Brazil, Soviet Union and Japan are expected to be the largest producers in 1989 with 34, 19, 9, 8, and 6 percent of forecast output, respectively.

Exports to decline

U.S. broiler exports are expected to decline in 1989 to around 650-680 million pounds, about 7 percent below the 726 million pounds expected in 1988. This level of exports would represent about 4 percent of U.S. production in 1989. Exports in 1988 are expected to fall 3-5 percent from the record 752 million pounds in 1987. The continued decline will result because of higher subsidy levels by the EC, and relatively high prices of U.S. broilers in 1988 compared with 1987, despite a weakening dollar on international currency exchange markets. The export refund rate for the EC was 45 percent above a year ago at \$610 per metric ton. U.S. broiler exports are expected to fall in 1989, unless the U.S. increases its Export Enhancement Program (EEP) bonuses, or the EC reduces its subsidy. Stronger competition by Thailand and Brazil may also limit U.S. broiler exports in 1989.

Japan and Hong Kong are expected to continue to be strong export markets for U.S. broiler meat in 1989. However, Mexico, one of the larger importers in 1988, could end programs which eases trade restrictions and import tariffs for poultry and eggs. Mexico has used this program to increase consumer supplies of poultry meat and eggs in an effort to fight inflation.

Looking past 1989

Production is likely to continue expanding in the future as broiler integrators continue using marketing themes which depict broiler meat as healthy and speedy to prepare. As two-income households increase, ease of preparation will continue to have added importance in at-home cooking. Increasing numbers of two-income households will also likely increase away from home food purchases such as fast food. Fast food appears to have been one of the major areas of increased consumption for poultry products. The average fryer price per pound also tends to be absolutely less expensive than most cuts of beef and this will help support continued expansion of broiler consumption. However, as these new markets become saturated, growth in broiler production will likely slow, until new market channels are found.

The ability of the broiler industry to expand broiler production will be predicated upon finding more cost efficiencies because chicken prices will likely continue to fall over time in order to clear the market. The increasing efficiencies will likely come from mergers, where some of upper and mid-level marketing and distribution functions will be streamlined, spreading overhead and fixed costs. Efficiencies will also likely come from integrators

retaining growout facilities with the best management. Biotechnology may provide some cost of gain efficiencies.

Turkeys

Turkey production to rise

Turkey producers are expected to expand output 2-4 percent in 1989 following positive net returns in the third and fourth quarters of 1988. Net returns are expected to be positive in the third and fourth quarters of 1989, although producers will experience negative net returns in the first two quarters of 1989 due to high feed costs associated with the drought.

Production in 1988 is expected to increase approximately 6 percent following a 17 percent increase in 1987. Output rose 18 percent in first-half 1988, but decreased 3 percent in the third quarter. Another 3 percent decline is expected in fourth-quarter 1988. Production is expected to begin increasing again early in 1989, but the largest increases are expected to come in the second half. Increases in turkey poults placed during September and October imply larger production in early 1989.

Cold storage stocks to follow past patterns

Public cold storage stocks in 1989 are expected to follow a traditional buildup of stocks for consumption during the fourth quarter. Beginning stocks for 1989 are expected to be about 175 million pounds, similar to 1986, but 38 percent below the 1988 beginning stock. By the beginning of fourth-quarter 1989, stocks will have built but only to approximately 550 million pounds, about 6 percent below 1988. Turkey stock-to-use ratios for fourth-quarter 1989 will remain near 1988 levels. The similar low stock-to-use ratio will lend some support to turkey prices but not enough to raise prices above fourth-quarter 1988 levels.

Turkey prices to rise

Fourth-quarter 1988 prices are likely to average in the mid to upper 70 cents per pound compared with 61 cents a year earlier. A lower stock-to-usage ratio for fourth quarter 1988, .39 versus .44 for last year, might explain a portion of the expected upward price movement from 1987. However, fourth-quarter prices are not expected to rise considerably from the third-quarter 1988, perhaps because retailers entered the market early expecting tighter turkey supplies for Thanksgiving and because there are plentiful supplies of ham for the rest of the holiday season.

Wholesale hen turkey prices in the East are expected to rise in 1989 to 63-69 cents per pound, up from the 61-62 cents projected for 1988. Turkey prices are expected to fall seasonally in first-quarter 1989 to 59-65 cents per pound, but remain substantially above the 49 cents of first-quarter 1988. The second-quarter 1989 price will likely be 55-61 cents, above the 51 cents in 1988. However, second-half 1989 prices are anticipated to be below year-earlier levels because year-to-year increases in turkey production will be larger in the second half than the first.

Retail turkey prices for 1989 are expected to rise along with the wholesale prices. But 1989 Thanksgiving specials will likely be more attractive as the larger increases in production are expected to take place during the second half.

Per capita consumption becoming more evenly distributed

Annual turkey per capita disappearance in 1989 is expected to continue its long-term trend towards more even distribution of consumption throughout the year. Although expected fourth-quarter disappearance, near 6 pounds, still accounts for nearly 36 percent of the annual total, the proportion has been decreasing. For example, fourth-quarter disappearance in 1978 accounted for 44 percent of the total. The first three quarters will likely comprise 20, 22, and 22 percent of the total disappearance in 1989 compared with the 11 year earlier distribution of 14, 19, and 24 percent in each quarter, respectively. Total per capita disappearance in 1989 will likely be a little below the approximate 16.7 pounds in 1988.

World production

World production of turkey is expected to rise approximately 2 percent in 1989 following an anticipated 4 percent increase in 1988. The U.S. is expected to continue as the leading producer of turkey followed by the EC, Canada, and the USSR.

Exports to decline

U.S. turkey exports are expected to fall 18-22 percent in 1989 after growing an expected 46-52 percent in 1988 from 1987's 33 million pounds. U.S. exports are expected to be less than 1 percent of U.S. production in 1989. Leading importers in 1988 were Egypt, West Germany, and Mexico. Egypt, which is facing meat shortages, has increased imports of turkey in 1988 11-fold from 1987. Mexico is using turkey as well as broiler meat in an attempt to reduce inflation. West Germany recently reclassified seasoned turkey into a higher EC duty category, temporarily pricing U.S. product out of the market. Expected higher U.S. turkey prices combined with uncertainties in major U.S. markets clouds the outlook for U.S. turkey exports in 1989.

Looking past 1989

Turkey production is likely to continue increasing beyond 1989 for many of the same reasons that broiler production is expected to continue expanding. Turkey producers continue to develop new products for consumers, emphasizing speed of preparation and the low-fat content of their product. There also are more market outlets for turkey producers to exploit because turkey is not yet a common item on most restaurant menus except as a special during the fall holiday season. In addition, there appears to be some room yet to increase feed efficiency and reduce the number of days turkeys spend on feed.

Eggs

Production to decrease

Egg production is expected to decline about 2 percent in 1989 after decreasing 1 percent in 1988. The continued decline follows more than a year and a half of negative net returns. Egg producers were facing negative returns for most of 1987 and began reducing production in mid 1988. The 1988 drought imposed further feed cost increases and despite higher egg prices, negative net returns are expected to continue after a short respite in third quarter 1988. Net returns are expected to remain negative during the first half of 1989 because of higher feed costs and seasonally lower prices. With egg prices rebounding in second-half 1989 and feed costs falling after an expected near normal grain crop, net returns could turn positive.

This trend of negative net returns have been reflected in table-egg producers' plans. The table-egg flock is currently down 3 percent from a year earlier. Egg-type chick hatch indicates fairly strong pessimism by egg producers as the hatch has been below year-earlier numbers since December 1987. Some recent monthly hatch numbers have been down more than 20 percent from a year earlier, with year-to-date hatch numbers being 16 percent below a year earlier. With relatively low chick hatch numbers, producers will have considerable difficulty maintaining the flock even through molting if prices rise unexpectedly. As the percent of flock having completed a molt continues to rise to maintain the flock at 2 to 3 percent below year-earlier levels, the rate of lay is also expected to suffer. Egg production is expected to continue declining during all quarters of 1989, but will be only 1 percent below fourth-quarter 1988 levels by the end of 1989.

Egg prices to rise

Egg prices in 1989 are expected to average 65-71 cents per dozen, up about 6 cents from 1988. First-quarter prices, at 59-65 cents, are expected to be above the 55 cents a year earlier as production continues to decrease in 1989. With continued lower production, prices are expected to average 57-63 cents in the second-quarter, above the 53 cents recorded in the same period of 1988. Prices in 1989 are expected to begin rising seasonally in the second half reaching 69-75 cents in the third quarter and 74-80 cents in the fourth quarter as the holiday baking season begins. These prices compare with 73 cents and 64-65 cents in the same quarters of 1988.

Retail egg prices will likely rise in 1989 as there will be less eggs available on a per capita basis. Production in 1989 is expected to decline significantly in response to negative returns causing per capita disappearance to drop faster than trend. Retail prices are expected to be at the highest level since 1984.

Per capita consumption likely to continue falling

Per capita consumption of eggs is expected to continue its downward trend in 1989 as it has in 1988. In 1987, per capita consumption was near 249 eggs, similar to the 1986 levels. Because production is responding to declining prices in late 1987 and early 1988, per capita consumption is expected to fall

to 242 eggs in 1988 and 235 in 1989. The continued decline in per capita consumption is perhaps symptomatic of the changing lifestyles of the American consumer. Egg producers have yet to market a product which will compete with easy to fix breakfast items such as sweet rolls and or instant cereals. The family may only sit down for breakfast on weekends while weekday breakfasts are eaten on the run, if at all. In addition changing lifestyles, health concerns associated with the egg may be impacting egg consumption. At the same time, egg producers have spent little money on changing the image of eggs in consumers' minds or convincing consumers that eggs aren't just for breakfast anymore. Recent developments which may be positive for the egg industry might include introduction of low cholesterol eggs and a number of processed egg products such as fat substitutes which are nearly non-caloric.

World production

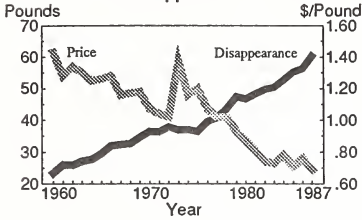
World egg production is likely to rise 2 percent in 1989 while production in the U.S. continues to fall. Production in the EC will also likely decline slightly in 1989. Production in China, the world's largest egg producing country, will probably increase 8 percent. The Soviet Union, the second largest egg producer, will likely boost production 2 percent in 1989. The egg is a very low cost source of protein. The EC, U.S., and Japan will likely continue to be the next largest egg producing regions in 1989.

Exports to decline

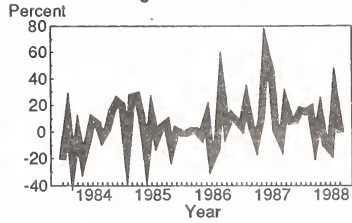
Egg exports from the U.S. are anticipated to fall about 14-18 percent in 1989, to near 110 million dozen eggs. The fall in 1989 exports follows an expected 20-25 percent rise in 1988. U.S. exports are expected to be about 2 percent of U.S. production in 1989. The higher price of U.S. eggs in 1989 will contribute to the decline in exports. Uncertainties in the Export Enhancement Program (EEP) as well as in export credit programs obscure the egg export picture for 1989. These programs can have a large impact on egg exports.

Current inflation control programs are expected to make Mexico the largest table egg importer of U.S. eggs in 1988 surpassing Hong Kong and Iraq. How long Mexico will continue the program of reducing trade restrictions on poultry and eggs leaves considerable uncertainty in the forecast for egg exports in 1989. Japan is the largest U.S. total egg importer and imports mainly egg products. Japan is expected to continue as the largest U.S. customer in 1989 as the U.S. competitive position in egg products has strengthened.

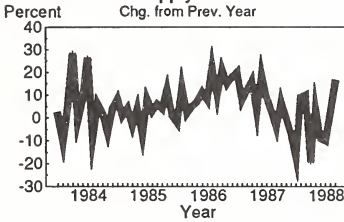
Broilers: Real Price vs. Per Capita Disappearance



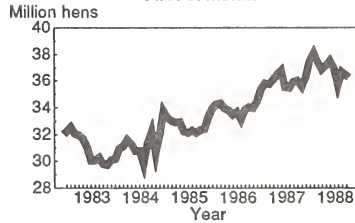
Heavy-type Hen Slaughter Chg. from Prev. Year



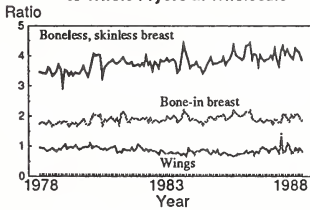
Broiler Pullets Placed in Hatchery Supply Flocks Chg. from Prev. Year



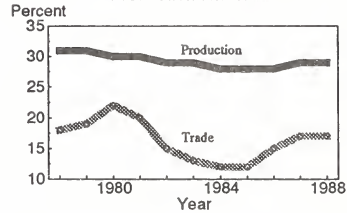
U.S. Hatching Egg Flock First of Month



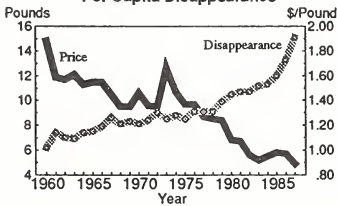
Ratio of the Price of Chicken Parts to Whole Fryers at Wholesale



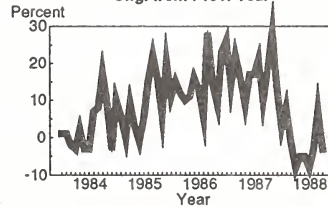
U.S. Share of World Poultry Production and Trade



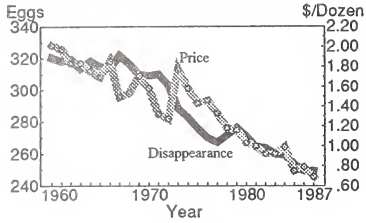
Turkeys: Real Retail Prices vs. Per Capita Disappearance



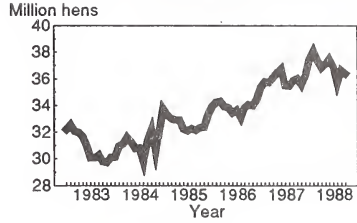
Turkey Poult Placed Chg. from Prev. Year



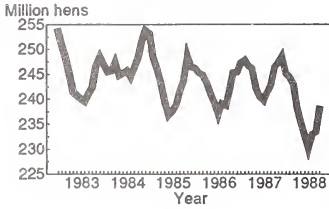
Eggs: Per Capita Disappearance vs Real Retail Prices



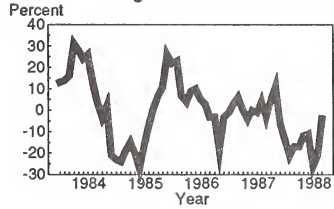
U.S. Hatching Egg Flock First of Month



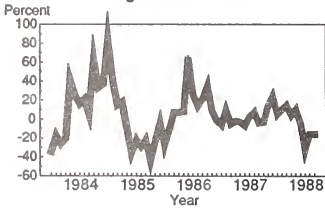
U.S. Table Egg Flock First of Month



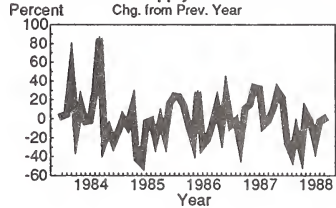
U.S. Egg-type Chicks Hatched Chg. from Prev. Year



Light-type Hen Slaughter Chg. from Prev. Year



Egg-type Pullets Placed in Hatchery Supply Flocks Chg. from Prev. Year



Egg Laying Flock in Molt Chg. from Prev. Year

